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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE FOR A
HEARING TO DETERMINE THE FAIR
VALUE OF THE UTILITY PROPERTY OF
THE COMPANY FOR RULEMAKING
PURPOSES, TO FIX A JUST AND
REASONABLE RATE OF RETURN
THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN.

DOCKET NO. E-01345A-08-0172

**NOTICE OF FILING STAFF REVIEW OF
PSA RESET CALCULATION**

Staff of the Arizona Corporation Commission ("Staff"), hereby gives notice of the filing of
the attached Staff Review of PSA Reset Calculation in the above docket.

RESPECTFULLY SUBMITTED this 15th day of December, 2009.

Arizona Corporation Commission
DOCKETED

DEC 15 2009

DOCKETED BY

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of the foregoing were filed this
15th day of December, 2009 with:

Docket Control
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AZ CORP COMMISSION
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Staff Review of PSA Reset Calculation
E-01345A-08-0172

On November 30, 2009, Arizona Public Service Company ("APS") filed its Power Supply Adjustment ("PSA") rate calculation to be effective on January 1, 2010. On December 2, 2009, APS filed a revised PSA calculation. (The filings were made in consolidated Docket Nos. E-01345A-05-0816, E-01345A-05-0826, and E-01345A-05-0827.) APS proposes a new PSA rate of \$(0.004491) per kWh to go into effect on January 1, 2010, one month earlier than usual.

The PSA Plan of Administration provides for an annual reset (each February 1) of the adjustor rate. The PSA rate consists of a Forward Component and a Historical Component. The Forward Component recovers or refunds differences between fuel and purchased power costs forecasted for the upcoming year and those embedded in base rates. The Historical Component tracks the differences between actual fuel and purchased power costs and those recovered through the combination of base rates and the Forward Component.

Staff has reviewed all of the computations as well as the reasonableness of the forecast of fuel and purchased power costs. Staff finds that the calculation of the PSA rate is consistent with Sections 2.6, 6.2, and 6.3 of the proposed Settlement Agreement and revised PSA Plan of Administration. It differs from previous PSA reset calculations in that it:

- uses the proposed base cost for fuel and purchased power of \$0.037571 per kWh;
- includes net margins on the sale of emission allowances, as proposed in the Settlement Agreement;
- spreads the collection of costs over 13 months of kWh sales instead of 12 months of kWh sales because the PSA rate would be in effect from January 1, 2010 through February 1, 2011; and
- does not apply the \$0.004 per kWh limit on the amount that the PSA rate may change in one year.

Staff believes that the calculation of the PSA rate was completed in a manner that is beneficial to ratepayers. Staff recommends that the PSA rate of \$(0.004491) per kWh should go into effect on January 1, 2010, at the same time as new rates resulting from the rate case go into effect.